

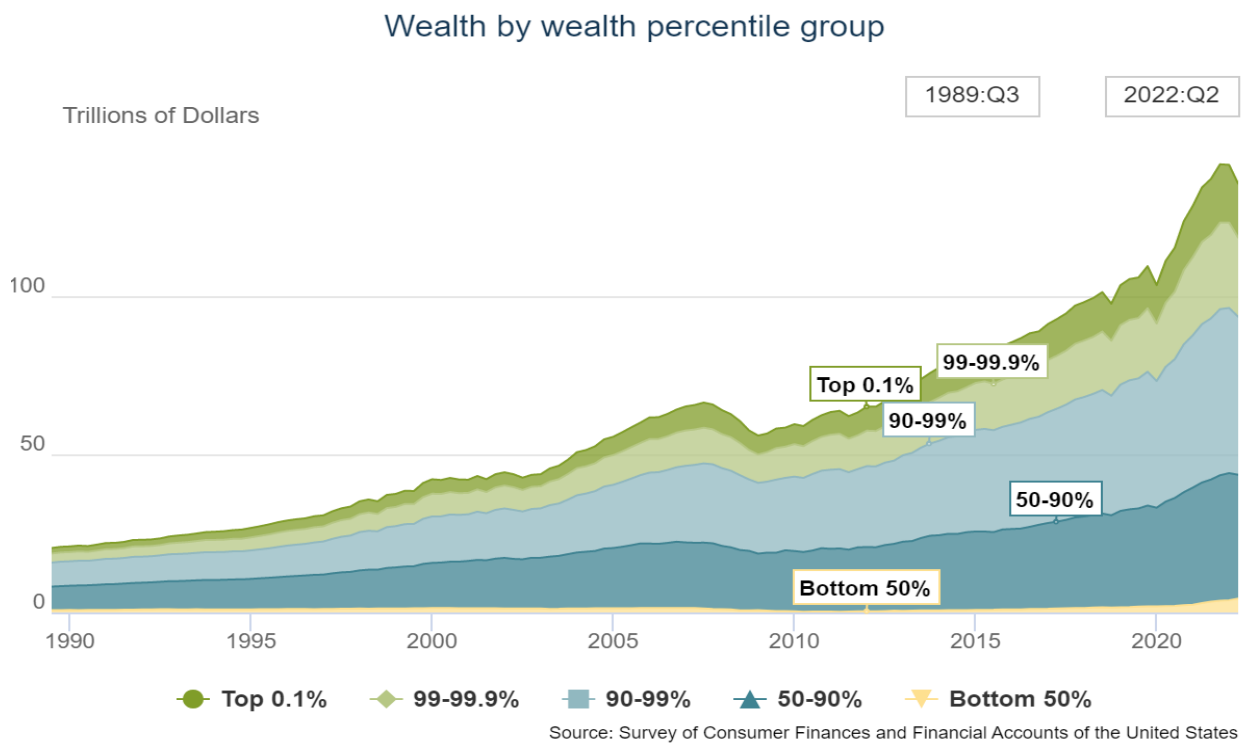
TESTIMONY OF ROBERT E. PATRICELLI IN SUPPORT OF S.B. 1230

APRIL 14, 2023

I am testifying this morning in support of the concept behind SB 1239, developed by this committee's co-chair Senator John Fonfara. This bill, and the federal bill introduced in the U.S. House of Representatives by Congressman John Larson after which SB 1239 is patterned, seeks to address what is probably the greatest underlying problem in America—the large and growing wealth gap between the investor and executive class on the one hand and the middle and working classes on the other, and between white households and those of color.

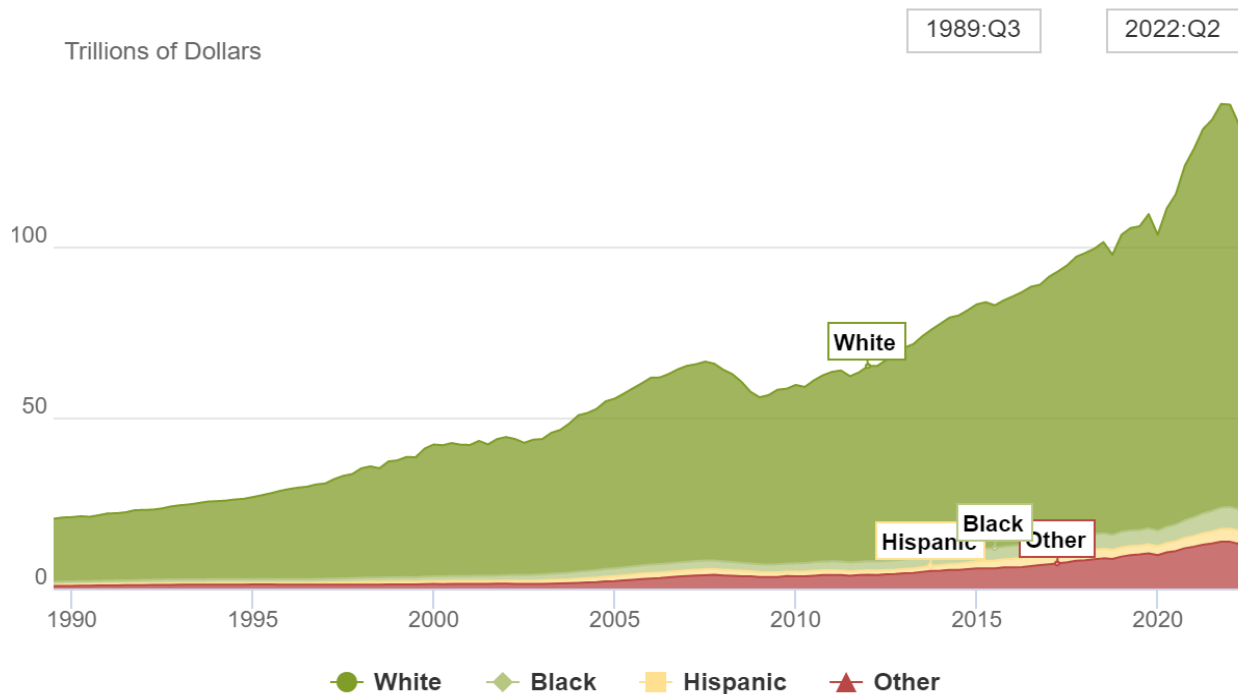
Let's look at the numbers.

In 2022, the top 10% of American families owned 68% of augmented wealth (including defined benefit pension assets), up from 62% in 1989, while the bottom 50% dropped from 4% to 3% over the same period. Half of households own 97%, while the other half owns only 3%.



And the issues of wealth and race are inextricably linked. We can't fully deal with race without dealing with wealth.

Wealth by race



Source: Survey of Consumer Finances and Financial Accounts of the United States

Probing further into the data, we see that the maldistribution of wealth is mostly accounted for by the even more distorted ownership of stock—the top 10 percent by wealth owns 88% of corporate equities and mutual funds, while the bottom 50% owns just 0.7%. The top half owns more than 99% of all stock! That's where the wealth is in America—it's in stock.

There is a solution. Working with others, I have developed the SHARE Plan Act which was introduced in the 117th Congress by our own Congressman John Larson (HR 4962). The Congressman is preparing to reintroduce the bill soon in the 118th Congress—"let's use capitalism to save capitalism", as he says.

This plan would strongly incentivize American companies to distribute over five years not less than 10% of their stock to most employees below senior management levels. It would redistribute \$4.7 trillion in stock wealth to working families. See our website at shareplanact.com for the legislative details on the SHARE Plan.

Upon studying the SHARE Plan, Senator Fonfara asked me "how could we do something like this in Connecticut". The answer is the pending bill. In the federal plan, the incentive for companies to more widely share their stock is that having a so-called SHARE Plan in place is a prerequisite for their shareholders to receive attractive long term capital gains tax rates when they sell their stock, as opposed to at the substantially higher ordinary income tax rate. Of course, we cannot change the federal Internal Revenue Code here in Connecticut, but we can modify the CT corporate income tax structure to provide a powerful incentive for corporate stock distribution.

The central concept in SB 1239 is that companies subject to the corporate income tax surcharge (i.e., those with revenues of at least \$100 million) could, at their option, avoid that tax by having a

Connecticut version of the SHARE Plan in place. SB 1239 is a working draft and still lacks many key details, including how much of a company's stock would have to be distributed to qualify for the exemption. I can make a few suggestions, based on what we know now:

- The effective date should be January 1, 2024, to give companies time to comply.
- Since the surcharge is scheduled to expire in two years, the bill should provide thereafter an ongoing incentive to companies to distribute stock, perhaps by giving them a commensurate deduction on the 7.5% corporate tax equivalent to the surcharge.
- The bill should require stock distributions only to a covered company's Connecticut-based full-time employees and not its whole national workforce, otherwise the cost in terms of stock value dilution is likely to be prohibitive and out of proportion to the benefit of the avoided tax.
- The distribution requirement should be achievable over four years in order to limit sudden negative impacts on stock price.

A key question is how much stock must be distributed to gain the exclusion. This question cannot be fairly answered without more data to understand the per-company size of the current surtax (which raises about \$100 million in total per year). The largest publicly traded companies by size of Connecticut workforce are Raytheon (16,600), General Dynamics (13,049), CVS (9,721), Walmart (8,454), and Travelers (7,400). (Data from the Hartford Business Journal Book of Lists, 2023.) What would be the value in earnings per share (EPS) of the avoided corporate income tax surcharge for these five companies, and how does that compare to the EPS dilution of having more shares outstanding? Further, should we take into account hard-to-measure company benefits such as improved alignment between management and labor about earnings, the positive effect on tenure of the five-year vesting requirement already in the draft bill, and the wealth redistribution effects generally?

I will close by urging legislators in Connecticut and Washington to start dealing with the wealth gap in a meaningful way. More income transfer programs don't change the distribution of wealth and can undermine incentives to work. We need to democratize stock ownership—that's where the wealth is.

Robert Patricelli has lengthy work experience in both the public and private sectors. He worked on U.S. Senate staff and in three presidential administrations in Washington (Johnson, Nixon and Ford) including as a Presidential appointee, and then had a forty-year career in health care services, having founded and served as CEO of three national companies employing tens of thousands of people including the NYSE company Value Health Inc. He served as co-chair of the 2017-2018 Connecticut Commission on Fiscal Stability and Economic Growth, chaired the CT Business and Industry Association in 2000-2001, and currently sits on several for-profit and non-profit boards. He is a native of Hartford.